

# Michigan's Budget: How Much Is There to Work With?

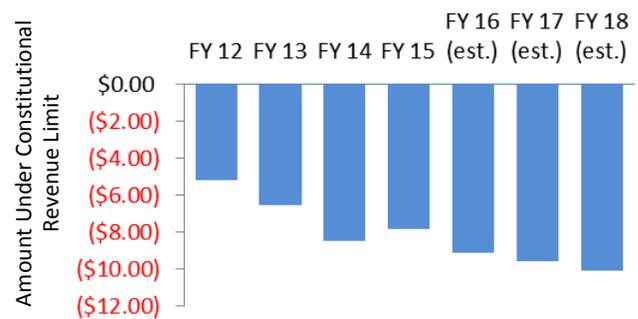
## REVENUE ESTIMATING CONFERENCE

Michigan law requires a Consensus Revenue Estimating Conference (CREC) to be held each January and May. The conference, which is made up of the directors of the House and Senate Fiscal Agencies and the state treasurer or budget director, forecasts economic indicators, such as employment figures and unemployment rates, adjustments for pupil counts and Medicaid and human services caseloads, and state General Fund (GF) and School Aid Fund (SAF) revenues. The consensus that is reached during the January conference becomes the revenue basis for the governor's budget proposal, and those reached during the May conference become the revenue basis for the budget bills passed by the Legislature.

## JANUARY 2016 RESULTS

Even with the recent adjustments, Michigan's total revenue is predicted to increase year after year. However, there is still room for growth. Michigan's

**Revenue Limitation Shows Room for Growth (In Billions)**



Source: House Fiscal Agency; Consensus Revenue Agreement Executive Summary, January 14, 2016.

Constitution limits the amount of revenue collected by the state to 9.49% of total state personal income. The last time Michigan was above—marginally—the revenue limitation was budget year 2000. Michigan is projected to remain under the revenue limitation by about \$9 to \$10 billion for the next couple of years.

**Revenue Outlook (In Millions)**

	FY 15		FY 16		FY 17				
	Preliminary Final Revenue	Change from		Consensus Estimate	Change from				
		FY 14	May CREC		FY 15	May CREC	FY 16	May CREC	
<b>Net GF-GP Revenue</b>	\$10,034.4	11.3%	\$309.5	\$9,843.8	-1.9%	(\$38.2)	\$10,213.9	3.8%	\$92.4
<b>Net SAF Revenue</b>	\$11,747.1	2.0%	(\$136.1)	\$12,131.6	3.3%	(\$111.3)	\$12,486.2	2.9%	(\$112.6)
<b>GF-GP &amp; SAF Total</b>	\$21,781.5	6.0%	\$173.4	\$21,975.4	0.9%	(\$149.5)	\$22,700.1	3.3%	(\$20.2)

Source: Consensus Revenue Agreement Executive Summary, January 14, 2016.

<b>Economic Outlook</b>			
	<b>Personal Income Growth</b>	<b>Unemployment Rate</b>	<b>Employment Growth</b>
2015	4.1%	5.4%	2.2%
2016	4.4%	5.1%	1.2%
2017	4.2%	4.9%	1.3%
2018	4.3%	4.8%	1.0%

Source: Consensus Revenue Agreement Executive Summary, January 14, 2016.

Following an unemployment rate peak of 14.2% in August of 2009, Michigan is entering its seventh year of job recovery. By 2015, the unemployment rate had dropped to about 5.4%, with further drops projected through 2018, keeping Michigan close to the national unemployment rate. Additionally, Michigan’s wage and salary employment will continue to grow, albeit more slowly, as will personal income.

### **SURPLUS OR DEFICIT?**

Constitutionally, Michigan must have a balanced budget. However, at times, adjustments must be made in order to meet this requirement. For example, if it appears that actual revenues for the current budget

year will fall below anticipated revenue—a “deficit”—the Constitution and state law require the governor, with approval from the House and Senate Appropriations Committees, to reduce spending through an Executive Order. This was last done in February of 2015, for the 2014-2015 budget year, as the amount of credits actually claimed against the Michigan Business Tax came in higher than originally predicted, greatly reducing revenue available. However, this also occurred during the Great Recession, as state revenues came in below the consensus predictions.

The good news is that the January 2016 consensus found a one-time “surplus.” At the Revenue Estimating Conference, unexpected revenue can either be considered one-time or structural; only structural increases that are included in ongoing revenue projections can be expected in future years. This year’s one-time surplus includes both money that had been appropriated through the budget process but left unspent at the close of the budget year, as well as unanticipated revenue in the last budget year. However, there are mounting pressures that could easily consume most, if not all, of this leftover money, and one-time money can only be used for short-term projects and not ongoing programs.